

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 499 - SB 502

March 17, 2017

SUMMARY OF BILL: Expands the definition of beer to include beverages with alcohol content not to exceed 18 percent rather than eight percent. Expands the definition of wine to include products of fruits other than grapes.

ESTIMATED FISCAL IMPACT:

**Increase State Revenue – \$3,200/Department of Revenue
\$10,400/Highway Fund**

**Decrease State Revenue – \$40,000/ABC
Net Impact - \$655,500/General Fund**

Increase Local Revenue – Net Impact - \$313,700

Assumptions Relative to Licensing:

- Currently the Alcoholic Beverage Commission (ABC) only licenses beer manufacturers that produce high gravity beer (greater than 8 percent alcohol).
- Such high gravity beer license is \$1,000 annually.
- Based on information provided by ABC, there are seven such licensing fees paid annually.
- There will be a recurring decrease in state revenue resulting from fewer licensing fees being paid to ABC estimated to be \$7,000 (\$1,000 x 7 licensees).
- An additional \$1,000 is payable to both the county and the municipality the brewery is located in.
- The recurring decrease in local revenue is estimated to be \$14,000 (\$1,000 x 7 licensees x 2 local government entities).

Assumptions Relative to High Gravity Beer Sales:

- According to the Department of Revenue (DOR), high gravity beer is currently taxed as an alcoholic beverage; under this bill high gravity beer will no longer be subject to such tax.

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- Based on information provided by DOR, 4.5 percent of wholesale alcoholic beverage tax collections are from high gravity beer; the total collection in FY17-18 from high gravity beer is estimated to be \$707,000.
- Wholesale alcoholic beverage tax collections are allocated 82.5 percent to the General Fund and 17.5 percent to local government.
- The recurring decrease in state revenue to the General Fund is estimated to be \$583,725 ($\$707,000 \times 82.5\%$).
- The recurring decrease in local revenue is estimated to be \$123,275 ($\$707,000 \times 17.5\%$).
- High gravity beer will no longer be subject to the alcoholic beverage enforcement tax that is allocated to ABC.
- Based on information provided by DOR, the total collection from high gravity beer in FY17-18 is estimated to be \$33,000; resulting in a recurring decrease in state revenue to ABC of \$33,000.
- High gravity beer will be subject to the beer wholesale tax.
- Approximately 584,517 gallons (or 18,855.4 barrels) of high gravity beer will be sold in FY17-18.
- The beer wholesale tax is \$35.60 per barrel distributed as follows: \$0.17 to DOR, \$0.92 retained by the wholesaler, and \$34.51 to local government.
- The recurring increase in state revenue to DOR is estimated to be \$3,205 ($18,855.4 \text{ barrels} \times \0.17).
- The recurring increase in local revenue is estimated to be \$650,700 ($18,855.4 \text{ barrels} \times \34.51).
- High gravity beer will be subject to the beer barrelage tax.
- The beer barrelage tax is \$4.29 per barrel and allocated as follows: 67.1 percent to the General Fund, 12.8 percent to the Highway Fund, and 20.1 percent to local governments.
- The recurring increase in beer barrelage tax collections is estimated to be \$80,890 ($18,855.4 \text{ barrels} \times \4.29) allocated as follows: \$54,277 to the General Fund, \$10,354 to the Highway Fund, and \$16,259 to local government.
- High gravity beer will no longer be subject to the liquor by the drink (LBD) tax.
- Based on information provided by DOR, LBD tax collections from high gravity beer is estimated to be \$532,000 in FY17-18. LBD tax collections would be allocated as follows: \$261,000 to the General Fund and \$271,000 to the respective local government.
- The recurring decrease in state revenue to the General Fund is estimated to be \$261,000.
- The recurring decrease in local revenue is estimated to be \$271,000.
- High gravity beer will be authorized for sale in grocery stores and other establishments licensed to sell beer, resulting in an increase in sales of high gravity beer.
- Based on information provided by DOR, total high gravity beer retail sales are estimated to be approximately \$21,000,000 in FY17-18.
- High gravity beer sales will cannibalize a portion of current beer sales.
- The overall recurring net increase in beer sales in Tennessee is estimated to exceed \$2,000,000.

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate in Tennessee is 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring increase in state revenue to the General Fund is estimated to be \$134,936 $[(\$2,000,000 \times 7.0\%) - (\$2,000,000 \times 7.0\% \times 3.617\%)]$.
- The recurring increase in local revenue is estimated to be \$55,064 $[(\$2,000,000 \times 2.5\%) + (\$2,000,000 \times 7.0\% \times 3.617\%)]$.

Assumptions Relative to Redefining Wine:

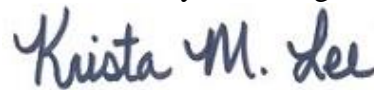
- Expanding the definition of wine will allow the sale of additional types of products.
- The overall impact on sales of all wine will be not significant.

Total Impact Assumptions:

- The recurring increase in state revenue to DOR is estimated to be \$3,205.
- The recurring increase in state revenue to the Highway Fund is estimated to be \$10,354.
- The total recurring decrease in state revenue to ABC is estimated to be \$40,000 $(\$33,000 + \$7,000)$.
- The total net recurring decrease in state revenue to the General Fund is estimated to be \$655,512 $(\$583,725 + \$261,000 - \$54,277 - \$134,936)$.
- The total recurring net increase in local government revenue is estimated to be \$313,748 $(\$55,064 + \$16,259 + \$650,700 - \$271,000 - \$123,275 - \$14,000)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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